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S E C R E T SECTION 01 OF 02 SHENYANG 000014

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DEPARTMENT FOR EAP/CM, EAP/K, INR, EB

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SUBJECT: CHINA'S DPRK-BOUND FOOD AID, AG EXPORTS CONTINUE
BUT SLOWDOWN LIKELY IN NEAR TERM

REF: 07 SHENYANG 252

Classified By: CONSUL GENERAL STEPHEN B. WICKMAN.

REASONS: 1.4(b)/(d)

¶1. (S) SUMMARY: Contrary to ROK press reports, PRC food aid and agricultural exports to the DPRK have not been suspended as a result of increased export tariffs on grain and other agricultural commodities imposed by Beijing in a bid to counter domestic inflation. New export regulations and a drought-induced Chinese grain shortfall may, however, unwittingly slow DPRK-bound agricultural shipments to North Korea in the short term. PRC aid to North Korea will be closely monitored in order to make sure grain shipments are not used to circumvent domestic export restrictions. Behind the scenes, Beijing is ordering major producers in the country's grain belt not to export corn or soybeans this year, regardless of quota availability. One local PRC-DPRK border administration predicted that increased tariffs will have an "important influence" on small-scale border trade and may encourage smuggling. END SUMMARY.

PRC FOOD AID NOT/NOT SUSPENDED, BUT SLOWDOWNS POSSIBLE

¶2. (C) YANG Wenjia (STRICTLY PROTECT), Chief of the Foreign Trade Administration Section of Dandong's Foreign Trade and Economic Cooperation Bureau, privately confirmed that Dandong this month implemented the Ministry of Commerce's new export tariffs on grain and a number of other agricultural commodities. He stressed that there has not, however, been a suspension in PRC food aid or agricultural exports to the DPRK, contrary to ROK press reports earlier this month. The new Chinese measures apply equally to all countries, and do not target the DPRK. Shipping items like grain, Yang explained, now need additional permits. He acknowledged that the new requirements may have a "certain impact" in the short term, but declined to say to what extent the new measures would slow cross-border shipping via Dandong, through which the majority of PRC-DPRK trade, and much of the PRC's aid to North Korea, passes.

INCREASED SCRUTINY OF NK AID TO COME

¶3. (S) Increased tariffs are ultimately only part of a bigger picture, according to an insider at one of Jilin Province's largest grain producers. WANG Haisheng

(STRICTLY PROTECT) of the Jilin Grain Group Export and Import Company again confirmed that there will be severe restrictions on grain exports in 2008 (see reftel). Wang said that aid to North Korea would be closely monitored in order to make sure grain shipments are not being used to circumvent domestic grain-export restrictions.

¶4. (S) Behind the scenes, central authorities have told companies like Jilin Grain Group not to export any corn or soybeans, regardless of quota availability. Rice is also being tightly controlled. Wang said that the PRC is currently releasing large amounts of stored grain domestically in a bid to moderate prices. He echoed Yang Wenjia's assessment that aid/exports to North Korea may be delayed to a certain extent, but offered another reason: China is currently still shopping for supply in the global markets to simultaneously cover a current shortfall through the upcoming Spring Festival, as well as to replenish strategic stores. Wang said the problem is largely one of inadequate supply due to a drought-induced poor harvest in the northeast grain belt, the PRC's grain-producing powerhouse. While press reports say that 2007 slightly surpassed 2006, Wang confided that yields were down by ten to twenty percent in all of northeast China, with the exception of southern Liaoning Province.

"IMPORTANT INFLUENCE" ON SMALL-SCALE BORDER TRADE

¶5. (U) According to a report by customs authorities in Ji'an, a key northern Liaoning PRC-DPRK border town opposite the DPRK's Manpo, the new PRC grain restrictions will have an "important influence" on small-scale cross-border trade in the area. The online report, dated January

SHENYANG 00000014 002 OF 002

15, predicted that the level of local exports to the DPRK would drop in the near term, while the price of Chinese grain exports would continue to rise as a result of growing producer costs. Another consequence also mentioned: a potential surge in cross-border smuggling.
WICKMAN